

HOSPITAL OUTPATIENT SERVICES

I. INTRODUCTION

This discusses the County's proposal for federal matching funds for the uncompensated costs incurred by the County in providing hospital outpatient services to Medi-Cal and indigent patients in County hospitals. Such an amendment would enhance the continued viability of the Project and is consistent with the goals of the Project.

II. PROPOSAL

Currently under the Project, federal financial participation ("FFP") is available for costs incurred by the County in rendering services to Medi-Cal and indigent patients in County comprehensive health centers ("CHC"), health centers, mental health clinics and under contracts with private providers, to the extent that those costs are not otherwise reimbursed by third party payers or private payments. The County proposes to extend FFP to the uncompensated costs of providing services to Medi-Cal and indigent patients in the outpatient departments of County operated hospitals. Although the costs incurred in the hospital outpatient setting are higher than those incurred in CHCs, the reimbursement of hospital outpatient services will be limited to the average per-visit cost incurred in County CHCs.

The nonfederal share of uncompensated hospital outpatient costs would be met through County certified public expenditures. The cost finding and claiming methodologies

would be similar to those applied currently under Attachment A to the Special Terms and Conditions for federally reimbursable ambulatory services costs. The County's claims would be subject to annual audit and certification by an independent accounting firm.

III. PROGRAMMATIC PURPOSE

One of the fundamental goals of the Project is to shift the County's health care system from an inpatient-focused system to one that emphasizes appropriate outpatient care. Accordingly, the County has reduced its budgeted inpatient beds from 2,595 in fiscal year ending June 30, 1995 to 1,864 for fiscal year ending June 30, 1999. Through its County operated clinics and the public/private partnership ("PPP") program, the County has also substantially increased access to primary care.

As reflected in the County's Annual Report for the 1997/8 fiscal year, the increased access to primary care has created increased demand for the specialty services provided in the hospital outpatient departments. To meet this demand, the County has established referral centers at its acute care hospitals to coordinate specialty referrals from its primary care providers. The referral centers have experienced a growth of over 600% since their inception in FY 1996/7. These results suggest that the County is succeeding in managing and coordinating the services provided in its health care system, and is making progress toward the goal of increasing comprehensive outpatient care.

Because current payment structures favor inpatient services, as the County shifts to outpatient services it is foregoing substantial revenue. By providing a funding mechanism based on outpatient, rather than inpatient services, this proposal would further reduce the County's reliance on inpatient hospital funding, and would thus support a fundamental Project goal.

IV. FINANCIAL IMPLICATIONS

In January 1996, the County presented to HCFA a forecasted shortfall of nearly \$1 billion in the operation of the County's health system through the original 5-year term of the Project. Through restructuring and reengineering efforts, as well as other factors, the forecasted shortfall has been reduced to approximately \$14 million.

In the early discussions among HCFA, the State and the County, HCFA had agreed to include as a financing component for the Project, FFP for the uncompensated costs of hospital outpatient services. In fact, the Special Terms and Conditions as originally proposed by HCFA included this financing element. However, the County elected not to include this element in the Project. At that time, the hospital-specific limits under 42 U.S.C. Section 1396r-4(g) ("OBRA 1993 Limit") on disproportionate share hospital ("DSH") payments would have eliminated any financial benefit arising out of that funding component.

An amendment to the federal Medicaid statute has caused the County to reconsider its election to exclude this component of the Project. The Balanced Budget Act

amended the Medicaid statute to increase the OBRA 1993 Limit for certain public hospitals in California, including Los Angeles County hospitals (Balanced Budget Act of 1997 Section 4721(e), Pub. L.105-33 (August 5, 1997)). This amendment allows the County to obtain additional Medi-Cal payments for hospital services without jeopardizing its DSH payments. The County would claim FFP for outpatient hospital services under this Project proposal to the extent the OBRA 1993 Limits allow the County to do so without jeopardizing its DSH payments. Under the proposal, FFP for outpatient hospital services is expected to be approximately \$50 million annually under the Project.